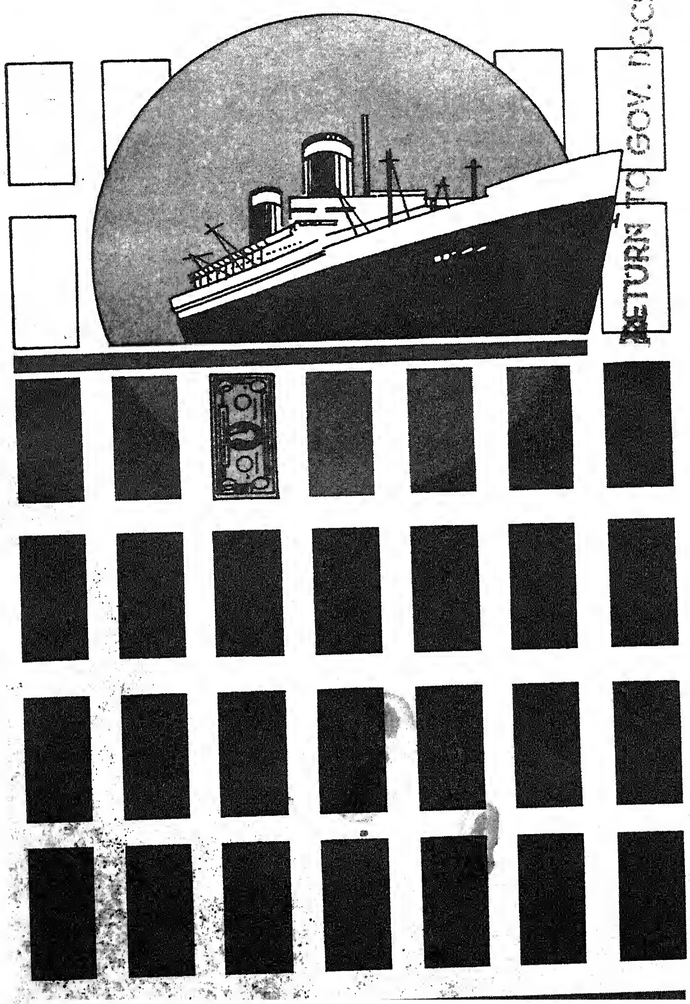
United States Department of Agriculture

Foreign Agricultural Service

CCC Export Credit Guarantee Program GSM-102

To Expand United States Agricultural Exports



CCC Export Credit Guarantee Program (GSM-102)

How It Works

The Export Credit Guarantee Program (GSM-102) of the Commodity Credit Corporation (CCC) is designed to expand U.S. agricultural exports by stimulating U.S. bank financing of foreign purchases on credit terms of up to 3 years. In every transaction, the foreign buyer's bank must issue an irrevocable letter of credit covering the port value (f.o.b. value) of the commodity exported. CCC's guarantee will cover most of the amount owed to the U.S. bank in case the foreign bank defaults.

Objectives

The program operates in cases where credit is necessary to increase or maintain U.S. exports to a foreign market and where private financial institutions would be unwilling to provide financing without CCC's guarantee. CCC does not wish to provide guarantees where commodities would be purchased for cash in absence of CCC's program.

A secondary objective is to permit some countries with improved financial conditions to purchase on fully commercial terms. This would be particularly appropriate for countries that no longer meet P.L. 480 per capita gross national product limitations.

Eligible Countries and Commodities

A few countries are barred legally from participating in the program. These include countries not eligible for most-favored-nation treatment (barred by the Trade Act of 1974) and certain countries barred by Executive Order or U.S. Department of Commerce Regulations.

Generally, the program is targeted toward countries where the guarantees are necessary to secure financing of the exports and where the destination country has the financial strength to provide a reasonable expectation that foreign exchange will be available to make payments as scheduled. Although in the past, CCC's export programs have been geared principally to bulk agricultural commodities, CCC will now study requests on a case-by-case basis, rather than publish an eligible commodity list. Any agricultural commodity whose export furthers CCC's long-range market development objectives may be considered.

Coverage

CCC's guarantee covers most of the port value (f.o.b. value) of the commodity, plus a portion of the accrued interest. Following CCC approval of a request for guarantees from a foreign buyer or U.S. exporter, the precise percentages of coverage will be specified in a press release announcing the availability of the guarantees. They are also specified in each individual payment guarantee. CCC's guarantees may not cover maritime freight or other charges arising after export.

Procedure to Obtain Guarantees

CCC will consider requests for guarantees submitted by private foreign buyers, foreign-government buying agencies, or U.S. exporters. The request may be submitted through the U.S. Agricultural Counselor or Attaché in the country of destination or may be submitted directly to the Assistant General Sales Manager, U.S. Department of Agriculture, 14th Street and Independence Avenue, S.W., Washington, D.C. 20250. Requests should specify the commodity desired, quantity, estimated value, approximate shipping period, the credit period desired, and if available, the name of the foreign bank that will issue the letter of credit.

If CCC decides that the request meets its market development objectives and other considerations and should be granted, it will issue a press release specifying the commodity, country, amount of coverage available, shipping deadline, guarantee rates charged by CCC, and other pertinent information. CCC must approve the foreign bank that will issue the letter of credit. CCC leaves to the foreign buyer the responsibility to arrange financing with a U.S. bank. On request, CCC will provide the names of U.S. banks that have participated in the program.

U.S. Bank Financing

Often, a foreign buyer may arrange for financing with a financial institution in the United States prior to purchasing commodities from U.S. exporters. U.S. exporters must register these sales with CCC and pay a guarantee fee at the time of registration. The exporter must know the credit period in order to calculate the guarantee fee and must submit an estimated payment schedule for principal at the time of the sale registra-

tion. The guarantee rates used to calculate the guarantee fee will be listed in CCC's press release.

Summary of Operation

Normally, after receiving approval from CCC, the foreign buyer will arrange financing through a U.S. bank, purchase commodities from a U.S. exporter, and arrange for a letter of credit issued in favor of the exporter by a CCC-approved bank in the destination country. The exporter will register the sale with CCC, pay the guarantee fee, and receive a Payment Guarantee. The exporter may immediately assign the proceeds payable by CCC under the Payment Guarantee to the U.S. bank financing the transaction. The bank will notify CCC of the assignment and CCC will then acknowledge the assignment.

After shipment of the commodities, the exporter will present documents to the U.S. bank, assign the account receivable to the bank, and receive payment for the port value of the commodities. The exporter will send CCC a report of export and a correct payment schedule, including both principal and interest.

The U.S. bank will collect from the foreign bank according to the agreed schedule, as shown in the exporter's report of export. If the foreign bank fails to pay as scheduled, the U.S. bank may make a claim to CCC, assign the account receivable and obligation from the foreign bank to CCC, and CCC will pay the U.S. assignee bank the amount covered by the Payment Guarantee. CCC will attempt to recover amounts in default from the foreign bank and will allocate any collections to itself and to the U.S. bank on a pro rata basis, as the respective interests indicate.

Additional Information

Persons interested in receiving additional information on the GSM–102 Program should contact the Assistant General Sales Manager, Export Credits, Foreign Agricultural Service (FAS), 14th Street and Independence Avenue, S.W., Washington, D.C. 20250, telephone: (202) 447–3224.

GSM-102: Details of Special Interest to U.S. Exporters

In some cases exporters may wish to extend credit terms to foreign buyers, but in most cases, it is expected that financing will be acomplished by a bank in the United States rather than by the exporter. In the latter case, the exporter will receive payment from the bank after the commodities have been exported and documents have been presented. A U.S. exporter who locates a foreign buyer wishing to purchase on credit may initiate a request for a CCC guarantee. Usually, however, requests will come from foreign buyers. If CCC agrees to make guarantees available and issues a press release to that effect, the exporter may register sales with CCC. The regulations do not preclude negotiations of sales prior to the public announcement, but no coverage will be available for commodities shipped prior to submission of a sales registration to CCC.

There is no special procedure to qualify for participation as a U.S. exporter under the program, except that the exporter must have a business office in the United States; have someone on whom service of judicial process may be made within the United States; and not be suspended or debarred from participating in CCC programs.

The foreign bank's letter of credit and CCC's Payment Guarantee are issued in favor of the exporter. Usually the exporter is paid and relieved of risk immediately after exportation of the commodities, but the exporter must submit a report to CCC after export and the exporter remains liable for false statements to CCC or actions that do not conform with CCC's regulations and that may compromise CCC program objectives. The exporter must retain documents relating to the transaction for 3 years following expiration of the Payment Guarantee. In many cases, CCC accepts the exporter's statements as valid, rather than requiring the submission of documents; however, the exporter's records are subject to inspection by authorized officials of USDA.

Exporters who make a sale to a foreign buyer under the GSM–102 program will:

1. Register the sale with CCC and pay a guarantee fee
2. Assign CCC's Payment Guarantee to a U.S. financial institution
3. Ship the commodities

4. Present documents to a U.S. financial institution and receive payment
5. Send a report of export to CCC

Sales Registration

In many cases, the exporter will become involved in a GSM–102 transaction after the foreign buyer has already made arrangements with CCC to provide guarantees and has arranged for a U.S. bank to provide financing. The foreign buyer may purchase through tender or negotiation and will indicate to the exporter that the sale should be registered with CCC under the GSM–102 Program. The exporter should ask CCC for a copy of the program regulations, which lists all of the information the exporter must submit as well as other obligations and procedures. When the exporter registers the sale with CCC, the following must be submitted:

1. Name of the destination country
2. Name and address of importer
3. Intervening purchaser, if any, and a statement that the commodity will be shipped directly to the foreign buyer in the destination country
4. Date of sale
5. Exporter's sale number
6. Delivery period
7. Kind and description of commodity
8. Quantity
9. Contract loading tolerance
10. Port value, including upward tolerance
11. Guaranteed value
12. Guarantee fee
13. The name and address of the foreign bank issuing the letter of credit
14. Estimated payment schedule(s) for each shipment to be made under the export credit sale showing principal-payment due dates and amounts due.

The exporter should ask the foreign buyer for the name of the foreign bank issuing the letter of credit, the credit period, and the frequency of principal payment. The credit terms are essential in order to determine the guarantee fee, which is calculated by multiplying guaranteed value times the guarantee rate. The schedule of guarantee rates will be shown in CCC's press release, but it is necessary to know the credit period and

whether principal is to be paid annually or semiannually, to determine which rate to use.

CCC will accept registration only of sales that are firm, including both a delivery date and either a firm price or a mechanism to establish a price (basis pricing). The exporter must send a written request (letter, telex, or TWX) and must also send in a guarantee fee before CCC will process the application. The fee may be sent in by courier, regular mail, or through the Treasury Electronic System.

CCC will accept a telephone registration, followed by a written registration, if the exporter mails his check the same day as the telephone registration. Some exporters may wish to register by telephone in order to reserve coverage and receive a Payment Guarantee number. The foreign bank may wish to insert the Payment Guarantee number in the letter of credit.

Guarantee Fee

When paying the guarantee fee, the exporter should be aware that it is nonrefundable. The port value registered should include the value of any upward shipping tolerance. The fee is calculated on the basis of the guaranteed value. For instance, if CCC's announcement specifies that the maximum guaranteed value is 98 percent of the exported value, the exporter could purchase a guarantee for up to 98 percent of his port value. If the exporter decides to declare a guaranteed value lower than the maximum permissible and then the exporter ships more than is covered, CCC will agree to accept an additional fee and increase the guaranteed value providing that other sales registrations have not exhausted the announced guarantees for the commodity and country. However, CCC will not reserve coverage 'or which no fee has been sent.

ımendments to Payment Guarantee

;CC will consider amendments to Payment Guarantees ıpon receipt of a telex or other written request explain-.ng the reason for the amendment. The request should be sent prior to export of the commodities. For in-tance, the exporter may have a shipping delay and not e able to ship by the date shown in the Payment Guar-tee, but still be able to ship prior to the deadline

shown in CCC's press release. If the Payment Guarantee has been assigned to a bank at the time the exporter requests an amendment, CCC's amendment will be effective for the assigned guarantee.

Assignment of Payment Guarantee

CCC will send the exporter a Payment Guarantee as soon as the request has been processed and formally approved. The exporter may assign the Payment Guarantee to a financial institution in the United States as soon as the document is received. Notice of the assignment will be sent to CCC, which will acknowledge its receipt.

Report of Export

Within 30 calendar days after shipment, the exporter must submit a report to CCC including a statement that the commodities have been exported as agreed and a correct payment schedule. The final payment schedule establishes CCC's liability to the exporter or assignee in case of default by the foreign bank. A separate, final payment schedule must be submitted for each shipment, but one Payment Guarantee may cover multiple shipments. In the payment schedule, the dates and principal amounts that establish CCC's liability should be correct. If interest rates are set on a floating basis, interest amounts will be estimated, but the due dates must be accurate.

After the exporter ships the commodities, presents documents to the bank, receives payment, and sends the report of export to CCC, risk of default is transferred to CCC and the U.S. financial institution.

GSM-102: Details of Special Interest to U.S. Banks

Report of Export

CCC requires the U.S. exporter to submit a report of export within 30 calendar days of shipment. The exporter must certify that the goods have been exported as agreed. If the report of export is not received within the 30 days or within an extension of the period, as approved in writing by CCC, the Payment Guarantee becomes void. CCC will inform the assignee when the report is received. The exporter may submit this report through the bank, but the exporter must make the certification.

The report should show both principal and the full amount of interest due. Due dates and principal amounts should be correct. If interest is calculated on a floating rate basis, interest amounts due may be estimated.

Amendments

The exporter may amend the Payment Guarantee, even after assignment has occurred. Exporters may need to extend shipping dates, change foreign banks, or make other changes prior to shipment. The bank can control the exporter's latitude in making amendments through an instrument of assignment establishing the conditions of assignment, or through controls set by the bank at the time the exporter presents documents for payment. CCC requires approval from the assignee prior to approval of amendments that might compromise the interest of the assignee.

Assignees may not amend the Payment Guarantee, but an assignee bank may calculate the Payment Schedule submitted after export. The assignee may also submit corrections to the payment schedule.

Defaults

If a default should occur, CCC will pay the assignee for amounts covered, after receipt of a claim, with documents in good order. CCC must be notified of a default within 10 days of the due date. Within 30 days after the notice of default, the assignee must submit a claim to he Treasurer, CCC. The time for filing this claim may e extended by CCC up to a maximum of 6 months rom the date of default.

If the assignee files a claim with documents in good order and CCC fails to pay immediately, CCC will pay interest to the assignee bank at a rate of interest based on the borrowing cost on 52-week U.S. Treasury bills. Interest will accrue from the day following submission of the claim.

When the claim is filed, the assignee bank will assign to CCC the account receivable and the obligation of the foreign bank to pay the amounts shown in the payment schedule. CCC will attempt to collect from the foreign bank and/or foreign buyer and any amounts collected will be divided between CCC and the U.S. bank pro rata. Any amounts received by the U.S. bank from any source whatsoever must be forwarded to CCC.

CCC is not obligated to honor claims on defaults earlier than those shown, such as those that would rise from an acceleration clause. CCC would not object, however, if the U.S. bank had an acceleration clause in its financing agreement with the foreign buyer. CCC may declare at its option the full amount due under the Payment Guarantee to be in default and make payment to the assignee bank.

Interest Rates

CCC does not control the interest rate charged by banks. CCC's coverage will be for a fixed rate of interest, usually somewhat lower than market rates of interest. The maximum coverage would be at the bond equivalent of the borrowing cost on 52-week Treasury bills, but coverage applicable to announced guarantees usually will be lower than the maximum authority.

The coverage will be specified in the press release announcing the availability of guarantees for the commodity and country, and the same limitations will be included in each Payment Guarantee. A fee for interest coverage will be built into the schedule of rates published in the press release. Banks may schedule interest payments that are more frequent than principal payments.

Coverage

CCC's guarantee will provide for payment in case of default by the foreign bank for any reason. Foreign banks

issuing letters of credit must be approved by CCC. In all cases, U.S. banks providing financing under the program will be expected to assume a portion of the risk. CCC will cover most of the port value (f.o.b. value) of the commodities and part of the interest. CCC will be able to vary the amount of interest and principal coverage, but in general it is expected that banks will assume a small amount of principal risk—perhaps 2 percent. The amount of coverage offered by CCC will be specified both in the press release and in each Payment Guarantee.

Coverage under CCC's Payment Guarantee enters into force from the moment of export and covers the foreign bank's failure to pay under an irrevocable letter of credit or related obligation. CCC's coverage is applicable to the payment schedule submitted to CCC after export. This schedule becomes a part of the Payment Guarantee and must have the correct dates, since it establishes CCC's liability in case of default.

Letter of Credit

A CCC-approved foreign bank will issue a letter of credit in favor of the exporter. Normally the foreign bank will be in the destination country, but in some cases the foreign bank may be in a third country. The letter of credit may provide for deferred payment, or may call for payment of the port value at sight. In the latter case, the letter of credit must be supported by a related obligation from the foreign bank issuing the letter of credit. The related obligation must be an irrevocable instrument obligating the foreign bank to pay the amounts shown in the final payment schedule submitted by the exporter. The related obligation must call for payment in dollars and must be assignable to CCC in the event of default.